

VZCZCXYZ0000  
RR RUEHWEB

DE RUEHBU #0022 0042032  
ZNR UUUUU ZZH  
R 042032Z JAN 06  
FM AMEMBASSY BUENOS AIRES  
TO RUEHC/SECSTATE WASHDC 2990  
INFO RUEHAC/AMEMBASSY ASUNCION 5234  
RUEHBR/AMEMBASSY BRASILIA 4998  
RUEHLP/AMEMBASSY LA PAZ JAN MONTEVIDEO 5184  
RUEHSG/AMEMBASSY SANTIAGO 4820  
RUCPDOG/USDOC WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHMFISS/HQ USSOUTHCOM MIAMI FL

UNCLAS BUENOS AIRES 000022

SIPDIS

SIPDIS

WHA FOR AS TOM SHANNON, PDAS SHAPIRO AND DAS PATRICK DUFFY  
NSC FOR DAN FISK AND SUE CRONIN  
TREASURY FOR DORA DOUGLASS  
USTR FOR LESLIE YANG  
OPIC FOR RUTH ANN NICASTRI  
SOUTHCOM FOR POLAD AND J5 FOR JUAN RENTA  
USDOC FOR 4322/MAC/OLAC/BASTIAN/PEACHER

E.O. 12958: N/A  
TAGS: [EFIN](#) [ECON](#) [PREL](#) [EINV](#) [AR](#)  
SUBJECT: ARGENTINA PAYS OFF ITS IMF DEBT

REF: (05) BUENOS AIRES 3097

¶1. President Nestor Kirchner announced on December 15 that the GOA would pay its remaining debt totalling nearly USD 10 billion to the International Monetary Fund shortly after the new year (reftel). Economy Minister Felisa Miceli and Central Bank President Martin Redrado announced on January 3 that the payment had been made. The transaction used USD 9.53 billion in Central Bank reserves to pay the remaining IMF debt in full. Miceli said the debt payment would yield improvements in the Argentine economy and would allow greater economic autonomy. Redrado said the transaction, which reduced Central Bank reserves by a third to USD 18.6 billion, "was the most important and complex in the Central Bank's 70-year history." (Note: Reftel reported that the debt payoff figure would be USD 9.81 billion. The discrepancy results from the difference in the December 15 and January 3 exchange rates for the IMF's Special Drawing Rights (SDRs). The SDR-USD exchange rate on the date of Kirchner's announcement was USD 1/SDR 1.444. The exchange rate for the January 3 payment was USD 1/SDR 1.432. End note.)

¶2. Miceli estimated that the payment would save the GOA more than USD 840 million in interest payments in the course of the coming 4 years. She also acknowledged that the payment had "high political and symbolic value" since it "marks the beginning of a new phase in which Argentines will decide on the policies to be implemented without excessive questioning." The January 3 payment does not signal a change in monetary policy, according to Miceli. Accumulating dollar reserves and maintaining a competitive exchange rate will continue to be the strategy "as it has been up to the present time," said Miceli.

-----  
Comment  
-----

¶3. Many pundits here say that eliminating the GOA's remaining debt to the IMF is a victory for President Kirchner. Argentine officials claim the payment frees Argentina from the dictates of the IMF, the organization that Kirchner has blamed in large part for the economic and financial collapse in 2001-2002. On the economic side, the

payment is viewed by many as a tangible demonstration of Argentina's economic recovery since the end of convertibility in January 2002 when the country's IMF debt exceeded USD 14 billion and reserves had dwindled to USD 8 billion.

¶4. At present, there are two competing visions about the way ahead for the Argentine economy. The first holds that, although the Kirchner administration did not strictly abide by IMF conditions, the absence of the IMF as a nominal check on setting economic policy will encourage fiscal laxity. This view contends that expenditures will rise and Kirchner will abandon his apparent preference for fiscal surpluses. The competing view argues that the loss of nearly USD 10 billion in reserves will force the GOA to be more prudent on the fiscal side to improve its credibility with international financial markets.

¶5. To see more Buenos Aires reporting, visit our classified website at: <http://www.state.sgov.gov/p/wha/buenosaires>.< /a>  
GUTIERREZ